

TRANSCRIPT PREPARED BY THE CLERK OF THE LEGISLATURE
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COMMITTEE ON APPROPRIATIONS
February 22, 2005
LB 323

The Committee on Appropriations met at 1:30 p.m. on Tuesday, February 22, 2005, in Room 1003 of the State Capitol Building, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB 323. Senators present: Don Pederson, Chairperson; Lowen Kruse, Vice Chairperson; Chris Beutler; Jim Cudaback; Pat Engel; Lavon Heidemann; Marian Price; John Synowiecki. Senators absent: Nancy Thompson.

SENATOR D. PEDERSON: (Recorder malfunction)...got people who are not here today, and we have people introducing bills. So I think we'll go with this and then report what happens to the other members of the committee when they arrive. And first of all, let me welcome all of you to the Appropriations Committee meeting today, and I'll introduce you to the parties that are here. On the far end is Senator John Synowiecki from Omaha. Next to him is Senator Marian Price from Lincoln. Over here is the Vice Chair, Lowen Kruse from Omaha, and I'm Don Pederson from North Platte. So just a couple of notes: As you testify, please be sure and sign in, and when you testify verbally, please spell your name, because this meeting is being transcribed and it's much easier for the transcriber to know who you are. And if you have cell phones, of course, I would appreciate your turning those off. So, with that, we'll proceed with the introduction of LB 323. Senator Hudkins.

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SENATOR HUDKINS: Thank you, Senator Pederson, and good afternoon to you and to the other members of the committee that are here. My name is Carol Hudkins, H-u-d-k-i-n-s, and I represent the 21st Legislative District. This afternoon, I am presenting LB 323, which appropriates \$50,000 from the General Fund for both fiscal year 2005-06 and fiscal year 2006-07 to the Winery and Grape Producers Promotion Fund. Those funds will be used by the Nebraska Grape and Winery Board to develop and maintain programs for the research and advancement of the growing, selling, marketing, and promotion of all varieties of wines, grapes, fruits, berries, honey, and other agricultural products and their by-products grown and produced in Nebraska for use in the wine industry. Five years ago, I introduced legislation to

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create the Nebraska Grape and Winery Board. I did this because I could see that grapes and wine production were growing industries in the state and all that was needed was a little encouragement for them to really take off and realize their full potential. I'm happy to report that today both grape and wine production are thriving in Nebraska, I believe in a small part due to the efforts of the Nebraska Grape and Winery Board. When the board was created in 2000, there were only three wineries in our state, and ten years ago there were none. But now, only five years later, there are 12 wineries in operation and another 4 or 5 in the planning stages. Likewise, more than 300 acres of grapes are now being harvested throughout the state, and all of these numbers are certain to grow considerably in the future. Ever since its creation, the Nebraska Grape and Winery Board has been totally self-funded. Each Nebraska winery pays to the Liquor Control Commission \$20 for every 160 gallons of juice produced or received by its facility. That money is then used for promotion and research. If the grapes...or if the grape and wine industry can realize these amazing advancements over the past five years without any state funding, just imagine how much more they could accomplish with a little assistance. It's important to point out that by supporting Nebraska's grape and wine industries we're doing more than simply helping out these two specific agricultural enterprises. By investing in grape and wine production we're giving a boost to this state's overall economy, because not only do the wineries create revenue themselves, but also they have a positive impact upon other industries, such as tourism. For example, every year James Arthur Vineyards near Raymond hosts a variety of events and activities that bring people in from all over the country, in addition to some foreign visitors. In addition to buying wine, those visitors pay for gas, food, lodging and other things, all of which benefit both the local and the state economies. A number of representatives from the grape and wine growing industries are here to testify in support of this bill. They can provide you with detailed information about their operations, as well as about how the requested funds would be used. I think you'll be impressed by what they have to say. They're doing an outstanding job and, given just a little support and encouragement, the sky is the limit for them and, as a result, for us too. With that, I would be happy to respond to any questions that you might

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have.

SENATOR D. PEDERSON: Thank you, Senator Hudkins. I'll announce that we've been joined by Senator Lavon Heidemann, from the southeast part of Nebraska. And may I ask, what do other states do in this regard?

SENATOR HUDKINS: I think the funding comes from a variety of sources. In some states...well, and probably in most states, and I think that the people behind me can tell you a little better, but many states do fund quite a bit more than we are even considering here in this bill.

SENATOR D. PEDERSON: Well, I know the wine industry has really moved ahead in this state and we're very pleased. That's a good economic development, not only for the state but also an alternate use of some of the land, and a thing that is, I think, going to inure to the state's benefit. I know there's a large operation going into North Platte and will be starting to produce rather shortly, so I know it's helped all over. But I think we have to look at any program that involves the use of state funds and so that will be the thing that we will evaluate, and hopefully we'll hear from the wine producers.

SENATOR HUDKINS: Absolutely. And grapes don't care if the soil is rocky or hilly or anything like that. They don't. It seems to be the worst type of soil the better the grapes like it. But it is a niche market. It's an alternative agricultural product.

SENATOR D. PEDERSON: Uh-huh. Okay. Any other questions of Senator Hudkins? If not...

SENATOR HUDKINS: All right. And I will waive closing.

SENATOR D. PEDERSON: Thank you. I understand that there are four persons that are going to testify. Be sure, as I said, to sign in.

ERIC NELSON: Good afternoon. My name is Eric Nelson, E-r-i-c N-e-l-s-o-n. I am chair of the Nebraska Grape and Winery Board and have been so for the last year. We are definitely in support of this bill. Just to give you an idea, last year we received \$5,327 that were paid in fees

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that came directly from the wineries. So, yes, we have been receiving funds. Needless to say, \$5,000 doesn't go very far when it comes to promotion and marketing and research. But we have been allocating that money predominantly to the Nebraska Winery and Grape Growers Association, and they have used that for a wide variety of marketing activities, and some of those activities will be reviewed just in a little bit. Our board has not officially met to decide how we would allocate these funds, but we do plan on meeting on March 4. And there are...in fact the majority of surrounding states around us do have some kind of funding mechanism that feeds money back into their specific grape and wine industry. Missouri, I know, has a tax that's actually on all wine sold within the state, and all the other states either have an appropriations or some kind of a taxing mechanism that they utilize.

SENATOR D. PEDERSON: That's it?

ERIC NELSON: It's all I have to report right now. Any questions?

SENATOR D. PEDERSON: Okay. How did you establish \$50,000 as the amount?

ERIC NELSON: You would have to ask Senator Hudkins about that, so...

SENATOR D. PEDERSON: Okay. Yes, Marian.

ERIC NELSON: Yes.

SENATOR PRICE: When people from other states order our wine over the Internet, do we charge a tax on the wine that they order over the Internet to be shipped to their state?

ERIC NELSON: Actually, I'll defer that to Max McFarland. He owns a winery and he'll come up here and talk about that.

SENATOR PRICE: Okay. Thanks.

ERIC NELSON: Sure.

SENATOR D. PEDERSON: Okay. So some states do charge a tax on the wine and then attribute part of that back for the

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promotion of the industry.

ERIC NELSON: Correct.

SENATOR D. PEDERSON: Is that right?

ERIC NELSON: Yes, they do.

SENATOR D. PEDERSON: So that will be another source of possible...

ERIC NELSON: That would definitely be a source.

SENATOR D. PEDERSON: ...possible revenue.

ERIC NELSON: Right. Right. In Missouri, I believe that that brings into their industry over a half a million dollars every year.

SENATOR D. PEDERSON: Uh-huh. Well, you're in competition with a lot of people for wine now, aren't you? It seems like every state has had wineries develop in their areas.

ERIC NELSON: There are, yes. Yeah, there are, and each of the wineries pretty much service their particular immediate area and everything. And the one unique thing, the one unique thing about wine is the fact that grapes growing in different soils in different climates produce wine that tastes totally different from each other.

SENATOR D. PEDERSON: Uh-huh. Any other questions of Mr. Nelson? Okay. Thank you very much.

ERIC NELSON: Thanks.

DEEANN HRDLICKA: Good afternoon. My name is DeeAnn Hrdlicka, D-e-e-A-n-n H-r-d-l-i-c-k-a. I'm the current president of Nebraska Winery and Grape Growers Association. We are the organization that typically has received the funding from the Grape and Winery Board, as it's been appropriated. So I'd like to talk a little bit, just give you an idea of what our organization is and what activities and projects we've done in the past with the funding we have gotten, and then Eric has asked me to put together, should we receive any money from the Grape and Wine Board this

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year, what we would intend to do with that funding, so. Our association was established in 1998. It was established by simply two wineries and one grower that got together. You've heard the numbers of how many wineries we have now, so the industry has virtually exploded. And because of this growth, our organization now has over 150 members. Early on, we were very fortunate to receive a variety of grants from a variety of different sources, but, as everybody will tell you, grant money is drying up these days, so we haven't been as fortunate as we were early on. So with the grant money, we had some wonderful projects. We funded a lot of marketing campaigns and...which really focused on the tourism of the Nebraska wineries. We, early on, we printed up a brochure that featured each of the Nebraska wineries, with the locations, and distributed that all over the state of Nebraska, trying to hit the tourism industry. We're currently working with the Nebraska Bed and Breakfast Association to kind of do a dual effort on their brochure to identify where the bed and breakfasts are, and exactly where the wineries are in relation to those, because we feel that customer base and that travel base is the same. Along with the tourism promotion, we strive to educate the public and just basically promote the sale of Nebraska wines. In 2003, we established the first ever Nebraska Wine Festival. We held that in Omaha at the new riverfront development area. It was a one-day event. We had over 1,300 people attend. They were given a chance to sample wines from all of the different wineries in one spot, just to kind of generate some enthusiasm for those. And, in addition, we also, at the State Fair for the past two years, have done an event called Vintage Nebraska--same type of format where people from all over the state can come and try all of the Nebraska wines in one location, hoping that will generate interest for those same people to go and travel to those individual wineries later on. Grape production as an alternative value-added agriculture crop has also been promoted at our informational booths at the State Fair and also at Husker Harvest Days in Grand Island. In addition, the association does various promotions and we've developed a scripted presentation that we could use at the local Rotary Clubs and extension service and any other educational areas where we can get out and just promote ourselves. With the grant money, we also established a web site early on for the use of...both to communicate with our members and to...a place where people typed in "Nebraska wines" on a search; they,

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boom, they would go to the web site and they could see each of those Nebraska wineries and know exactly how to get to them. Our structure is such that we have an executive board that meets, and we're the ones that develop the budget and the projects for the year. The projects that we've identified for the coming year, too, that this money will be used for, are the following: We need to develop and implement a statewide marketing program to maximize the growth potential of this industry. Due to limited funding funded previously, all of our marketing campaigns were really geared towards the eastern part of the state where the population is dense. We really think we need to expand our marketing campaigns across the entire state of Nebraska and also, beyond that, neighboring states. There's plenty of people that would come to Nebraska. We need to update and print our brochures. The brochures don't reflect the total number of wineries we have right now, and they're popping up so quick, we need to keep those current. Those are our cornerstone of our marketing right now. We would like to do some more education to the public in general on the Nebraska grape and wine varieties through the use of presentations and product tastings and little events and all across the state. The goal would be to have the public recognize the variety of grapes grown in Nebraska, such as Edelweiss and deChaunac, as well as they recognize names like Chardonnay and Merlot. We would like to develop more programs to capitalize on our "agritourism" aspect of our industry. We want to try to work with existing festivals and events, and also work with other existing associations, such as the beef board and the pork producers, just like we're trying to do with the Nebraska Bed and Breakfast Association. And our final goal is we'd like to hire an executive director to help spearhead our marketing and fund-raising efforts, and move our organization to a more self-supported leader in alternative agriculture. For years, people in the central Midwest have traveled to Missouri for their wines. To its credit, Missouri has created an entire tourism economy around their wine industry and received national recognition. If you ask any of the leaders of the Missouri wine industry, they will tell you that they could not have accomplished that with (sic) the support of their state government. This is not to say that an industry of this kind will rely on state funding. It's quite the contrary. We will become a viable and successful self-sustained industry no matter what the funding, but the

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funding in the early stages will simply expedite this process. You have any questions?

SENATOR D. PEDERSON: Mr. Nelson mentioned that in Missouri, apparently, that they have a tax on the wines and they've used that as part of their promotional program.

DEEANN HRDLICKA: Uh-huh.

SENATOR D. PEDERSON: Do you think that would work here in Nebraska?

DEEANN HRDLICKA: I do. What I do know of the Missouri program is it's not only a tax on the Missouri wines; I believe they have a couple pennies of tax on any wine, including wine that they've shipped in from California,...

SENATOR D. PEDERSON: Uh-huh.

DEEANN HRDLICKA: ...so any liquor store in the state of Missouri that that wine will be sold. So I do think it would work, especially if it was at a level that the consumer doesn't notice a couple more pennies on a bottle of wine.

SENATOR D. PEDERSON: Uh-huh. Well, we naturally look at other alternatives rather than general funding approach to this, because, you know, \$50,000 sounds good as an initial approach, but it's probably not a long-range approach to a program like this. So you would probably need a more sustaining source of revenue than probably we could do for any one industry. John.

SENATOR SYNOWIECKI: There's been a lot of discussion about Missouri.

DEEANN HRDLICKA: Uh-huh.

SENATOR SYNOWIECKI: I have a bill, and I don't know what the number is, I was just looking for it, more generally with regard to travel and tourism,...

DEEANN HRDLICKA: Uh-huh.

SENATOR SYNOWIECKI: ...with the way they do their logistics

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down there relative to funding tourism. My bill essentially patterns...attempts to pattern Nebraska after the Missouri plan...

DEEANN HRDLICKA: Great.

SENATOR SYNOWIECKI: ...in...generally, in tourism matters. And one of the elements of the plan is matching grants for organizations such as yours,...

DEEANN HRDLICKA: Uh-huh.

SENATOR SYNOWIECKI: ...that we have appropriate funding at appropriate levels for tourism-specific grants or tourism industry specific grants.

DEEANN HRDLICKA: Uh-huh.

SENATOR SYNOWIECKI: That's something you might be interested in,...

DEEANN HRDLICKA: Absolutely.

SENATOR SYNOWIECKI: ...and so I'd let you know about that.

DEEANN HRDLICKA: Great.

SENATOR SYNOWIECKI: Thank you, Senator Pederson.

SENATOR D. PEDERSON: Any other questions? Thank you very much.

DEEANN HRDLICKA: Thank you.

MAX MCFARLAND: Good afternoon. My name is Max McFarland, M-c-F-a-r-l-a-n-d, and I'm co-owner of Max Creek Vineyards and Winery near Lexington, Nebraska. Thank you for this opportunity to speak to you on behalf of the wineries in Nebraska in support of LB 323. The wine industry is growing rapidly, as you've heard. However, it's still one of the best kept secrets in the state. Daily, in winery tasting rooms across the state, you can hear a new customer who just happened onto a winery make the comment, a winery in Nebraska, you've got to be kidding me. The truth of the matter is that the industry is not only growing but already

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having substantial economic impact in this state. In 1997, when we first started our research into the possibilities of building a winery, there were three in the state. We were bonded in December of '02, and we were number six. Now there are 12, as you've heard, and 4 or 5 more under construction. During our first year of operation, over 10,000 customers walked into our front door, some local, some regional, many Nebraskans, and many out-of-state tourists. Multiply that by 10 or 12 wineries and you can see the current and potential impact of the industry, an impact in areas of tourism, economic development, "agritourism," and diversification in value-added agriculture. The wineries are all doing what we can to market our wines, our location, and our business. However, we need support in jump-starting these marketing efforts of the industry at the state level. Our intentions are not to take this money, spend it, and come back year, after year, after year, as you have alluded to. Will it take more than one year? Possibly, but this seed money of LB 323 could serve as the catalyst we need to begin developing a self-sustaining and perpetuating marketing infrastructure to promote and expand the Nebraska wine industry. I believe that the wineries also realize the significance of these dollars. While our industry will no doubt be able to sustain such marketing efforts at the state level once we have grown to that point, our fledgling industry cannot provide the initial jump-start efforts that would be possible with these dollars. Wineries do accept the responsibility of supporting our own industry at the local, state, and federal levels. For example, you've already heard wineries currently tax themselves on every gallon of juice we ferment. We also again then pay tax on every gallon of wine we bottle, and we also again then pay tax on every bottle of wine we sell--same wine, three times. Allow me to provide a couple of examples which I believe will point out the need for marketing in our industry. I want to ask you a couple of questions, rhetorical questions. Please don't answer publicly, but be honest with yourselves. Number one, when I ask you to think of fine wine, what wines come to your mind? If you're like most Nebraskans, you'll respond with Chardonnay, Pinot Noir, Cabernet, Merlot, Shiraz. Why do you suppose that you did not immediately think of deChaunac, LaCrosse, St. Vincent, or Edelweiss? One word, ladies and gentlemen--marketing. Yet, these Nebraska wines are of the highest quality of fine wines, as

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attested to by literally dozens of medals--bronze, silver, gold, double gold--being won in international wine competitions, competing with wines from around the globe. This is the reason that, of all the wine consumed annually by Nebraskans, some 1.8 million gallons, less than 1 percent is Nebraska wine. Just think of the untapped potential for this industry and this state. Second question: When you think of all the wine produced in California, what percentage do you think is produced in Napa? I'll make this one easier, multiple choice: (A) 10 percent; (B) 50; (C) 75; (D) 90 percent? Again, like most Nebraskans, you probably answered 75 to 90 percent. After all, if you plan a trip to California wine company...country, you go to Napa. Truth is less than 10 percent of the California wines are from the Napa Valley. Then why is it that that's all we hear about? Probably one of the most incredible examples of marketing we've ever seen in the industry. The wineries in this state have pooled our resources and are bringing an internationally renowned marketer in the wine industry into our state next week. We look forward to her assistance in helping us to begin formulating the marketing infrastructure for our state, such as marketing plan, materials, the feasibility of an executive director, et cetera. As the French and Australians continue to grab onto increasing portion of market share in this country, she reminds us to remind consumers of quality wine here at home. Her slogan: "Fine wine, it's an American thing." While I agree with her, I also think she has missed the mark slightly. Please help us to establish that fine wine is a Nebraska thing. Thank you. Any questions?

SENATOR D. PEDERSON: Max, I have two questions.

MAX McFARLAND: Yes, sir.

SENATOR D. PEDERSON: The first, how did so many people find you in Lexington, Nebraska?

MAX McFARLAND: The good news is we're about three miles off the interstate.

SENATOR D. PEDERSON: Uh-huh.

MAX McFARLAND: We put...we had been told, through seminars and other educational kinds of activities, to be generous as

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we figured what portion of our budget needed to go into marketing, and then probably triple your most generous estimation, and we've done that. We've put a lot of money...the other wineries will tell you the same thing...we've put a lot of our own money into marketing to get it out on the interstate, to get out on the web. I'm amazed at the number of people who plan their vacations by getting on the web, and they stop at wineries going through the state and we happen to be their stop. I'm also amazed...DeeAnn had referred to the wine festivals down in the Lincoln-Omaha area...how many people, and we participated in those to support the industry, thinking nobody is going to come three hours west to find one winery. I'm amazed at the number of people from Lincoln and Omaha that travel three hours west to find a winery, and they make a weekend of it. They go to Johnson Lake, they visit other attractions in the area, that sort of thing.

SENATOR D. PEDERSON: As a part of my first question, do you have an establishment there for people to come in and to taste your wines and things of that nature?

MAX McFARLAND: Yes, sir, we do. We have a...we have a winery with a public tasting room on the premises, surrounded by a vineyard.

SENATOR D. PEDERSON: Now my second question is, did the movie Sideways help or hurt your industry? (Laughter)

MAX McFARLAND: I'm embarrassed to say that hasn't come to Lexington yet. I haven't seen that. (Laughter)

SENATOR KRUSE: Well, with a little luck, it won't come. (Laughter)

MAX McFARLAND: You know, I did hear...this is the honest truth, it was coming in on NPR today that that movie has been attributed to a 14 percent increase in sales of Pinot Noir.

SENATOR KRUSE: Yeah.

SENATOR D. PEDERSON: And a corresponding reduction in Merlot. (Laughter) Any other questions of Max? If not, thank you very much for being here.

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MAX McFARLAND: Thank you.

SENATOR D. PEDERSON: One more testifier? Is that right?

TERRY RYAN: Good afternoon, Senator. My name is Terry Ryan, T-e-r-r-y R-y-a-n, from Minden, and my perspective here is that of a grower. I'm part-owner of a small vineyard near Heartwell, along with my wife, my brother, and my sister-in-law. We have a little over 1,000 production vines in the ground now, as well as several experimentals. The early ones are a little over...about six years old, and this covers about two acres, and it's located in a center-pivot corner, and this is ground that...extremely poor ground that otherwise, up to this point, was just sitting. Somebody mentioned earlier that quality ground is not a requirement for grapes, and that appears to be true for us too. Last year, we harvested about eight ton of grapes and that...hopefully, that number will increase as some of the later plantings mature. The primary reason we got into this business is that it appeared to have some pretty good income potential, eventually, and it also fits very well into my schedule as a no-till commercial grain farmer. Basically, the busy times in the vineyard are pretty slow times on the farm. So it enables me to be more efficient with my time, land, and equipment. We also hope that this, at some point in time, will be a good part-time retirement project. I think the wine grape industry is a good example of a true value-added industry for Nebraska. The raw material is grown here by Nebraska farmers, the grapes are picked here with local labor, and a final product is produced here with local skill and, for the most part, the wine is sold here in Nebraska, keeping those dollars here in Nebraska. Wines that are exported will bring additional dollars back into the state. I'd like to share a few numbers with you to illustrate...and these are rather conservative estimates. There was mention earlier of 300 acres of grapes in the state. Mine is based on 200 acres of mature production vines. In Nebraska, typically we plant about 550 vines per acre. Again, currently I'm estimating 200 acres of grapes in the state. Each mature vine produces 15 to 20 pounds of fruit annually, which then produces about four to five bottles of wine. The average price of Nebraska wines, this is kind of a guess, is about \$12 to \$13 a bottle, in other words \$55 to \$65 per vine; 200 acres, 550

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vines at \$60 a vine annually, that's at a minimum \$6.5 million that stays here and does not go to California or New York or France or Italy. Economists also typically say that every dollar spent locally turns over seven times. That really makes a difference, I think, in the long run. As was mentioned earlier, there are currently 12 licensed wineries, and several more in the process, and numerous small growers like myself. Again, we're not really sure of that number, but there's more and more every year who depend at least partially on this industry to make a living. Another interesting number that we've seen in the last few years, since I got into this business, is that of the wine that we drink in this state, only 1 to 1.5 percent is Nebraska wine. That tells me that there's tremendous potential for growth in the industry, not necessarily getting people to drink more wine, but to try a Nebraska wine instead of that California Chardonnay or Merlot. One of the things that continues to surprise me is the number of wine drinkers who had no idea that there's a wine industry in Nebraska, or that we could even grow grapes here, and I guess I was the same way when we first discovered this six or seven years ago. We work...we're constantly working to get the word out--State Fair, Husker Harvest Days, small town celebrations, et cetera--but it takes time, money to be effective. And that's where, hopefully, some additional help from the state will make a difference. The other area I think that we...that needs some help is viticulture research. One of the differences as...for me, in growing grapes versus growing corn, is if I can buy a bag of new seed corn of the hot new variety and I'll know in six months whether it's going to have potential on my farm, in my soils. In the vineyard, that's going to take me six years, and that's where the university and the research that the Horticulture Department and Paul Read has been doing is very helpful. They do a lot of variety studies, numerous other studies also, but those things certainly make a difference to us as growers. I guess I think some additional support from the state...with some additional support from the state the industry will continue to grow even faster than we hope it will, and I think it will show a pretty good return on your investment. Thank you.

SENATOR D. PEDERSON: Lowen.

SENATOR KRUSE: When is the busy time in the vineyard?

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TERRY RYAN: Pruning seems to be the first major time, and that's starting about now, removing the old growth from last year, primarily; and the other is harvest, and for us, for the varieties that I grow anyway, and most of the varieties that are grown in Nebraska, I think, are harvested in August and even...some into September, but our varieties are generally harvested in August, which for me is again prior to soybean harvest. So for me it fits very well. There's...

SENATOR D. PEDERSON: Senator Price.

SENATOR PRICE: I would like an answer. Wine ordered over the Internet, is there a tax on that? I know you mentioned there's three different taxes charged on...that you pay the state on the wine. Is there a tax on wine sent to California or other states?

JIM BALLARD: Yes.

TERRY RYAN: Jim could probably answer that.

SENATOR PRICE: Okay. As long as I get this answered.

TERRY RYAN: I'm...yeah. (Laugh)

SENATOR PRICE: Okay.

TERRY RYAN: I'm just the grower.

SENATOR PRICE: All right. (Laughter) All right.

SENATOR SYNOWIECKI: How do you keep the raccoons out of your field?

TERRY RYAN: We don't have a problem with those.

SENATOR SYNOWIECKI: Really?

TERRY RYAN: We don't. Our vineyard is kind of out in the middle of nowhere with not a lot of trees and water nearby. So they've been around, we see tracks, but we don't have...we have some bird problems. Last year the prairie chickens discovered them.

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SENATOR SYNOWIECKI: Okay.

TERRY RYAN: That was a bit of a problem for the grapes that were low enough that they could reach.

SENATOR D. PEDERSON: I have just one question. Do you have a vintner?

TERRY RYAN: Excuse me?

SENATOR D. PEDERSON: In your operation, do you have someone that operators your vineyards?

TERRY RYAN: No, no, just the four of us do the work, and our...

SENATOR D. PEDERSON: So you just...

TERRY RYAN: ...our grapes are sold to James Arthur.

SENATOR D. PEDERSON: You sell your grapes then to another grape company or wine company.

TERRY RYAN: Right, to them, yes.

SENATOR D. PEDERSON: Okay. Marian. Oh.

TERRY RYAN: Thank you.

SENATOR D. PEDERSON: Okay. I have just one more question.

JIM BALLARD: Yes.

SENATOR D. PEDERSON: And maybe this should be to somebody who is in the business of selling, but I don't see very many Nebraska wines on the shelves in the stores.

JIM BALLARD: I lied, Senator Pederson. We'll have five testifiers today...

SENATOR D. PEDERSON: Okay.

JIM BALLARD: ...to answer some of these questions.

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SENATOR D. PEDERSON: Well, that's fine.

JIM BALLARD: My name is Jim Ballard, B-a-l-l-a-r-d. I'm from Raymond, Nebraska, with James Arthur Vineyards. First, you had a question about Missouri and the tax. They actually tax, I think it's, six cents a gallon for every wine sold that's not made in Missouri. So for wholesalers to bring their wine in, then it's sold, there's six cents that goes back to the state. A little history: We've tried that twice here in Nebraska. I've testified and a number of us have testified before the General Affairs Committee. To be frankly honest, we have a heck of a time trying to convince the wholesalers that's something that's going to benefit all of us. So...

SENATOR KRUSE: Oh my.

JIM BALLARD: ...which equates (laugh)...which equates to less, about a penny a bottle per tax, and that's something that we've tried a couple of different times, always thinking that going through Appropriations would be a last resort for us. And the first few times, that's the reason the Grape and Wine Board was set up, as well our self-tax that we put upon ourselves. We're trying to parallel those things together. So hopefully that answers your question about Missouri. Colorado gets appropriated funds. Iowa actually gets an interesting funding...or, interestingly, they get funding from their equivalent to the Liquor Control Commission here in Nebraska based on revenue that exceeds their budgeted projections. So that could fluctuate from year to year. South Dakota, I believe, gets appropriated funding. Kansas I don't think has any right now. So those are some surrounding states in comparison to what we do. Question about Internet, Senator Price: If somebody orders from us from California or from wherever, that we...

SENATOR PRICE: Out of state.

JIM BALLARD: Out of state, and we can only ship to X number of states legally. There's only, I think, 13 states that we can actually ship to. For example, if Arizona...somebody from Arizona calls us up and says, hey, we'd like to order five cases of your best wine, I have to say, sorry, but I can't ship to Arizona because of shipping laws. But for somebody that does call from a state that we can ship to, we

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don't charge them a state sales tax, so basically, it's just the cost of our wine. Now, if somebody from Nebraska calls and orders, of course there's a tax on that. If somebody from Nebraska or somebody from California, then we in turn pay those taxes to those states. Does that make sense?

SENATOR PRICE: Uh-huh.

JIM BALLARD: But there's no taxes collected for the state. And there was one other question. Oh,...

SENATOR D. PEDERSON: Well, I was asking about...

JIM BALLARD: ...about the shelves, yes.

SENATOR D. PEDERSON: ...about the shelving, but I do know, maybe it would be helpful for the committee to understand, there are restrictions on the amount of wine that you can produce without going through a distributor.

JIM BALLARD: Exactly. There is a 30,000 gallon limit that we're capped. If once a winery passes 30,000 gallons, then we have to go through a distributor, according to state law. Farm wineries are also limited to 50,000 gallons total production. To be quite honest, out of the 12 wineries right now, very few of us are close to that 30,000, let alone the 50,000 gallon. Basically, my take on why there aren't more wines in the stores right now is simply because we're such young industry and many of the producers are fairly small. And, to be honest, if you can sell everything you make retail out the front door, why even mess with wholesaling? But there are some requests that come from different stores across the state. I know that we're in about 300 different locations, James Arthur, 300 different grocery stores, bottle shops, liquor stores, restaurants across the state of Nebraska. I couldn't tell you about the others, but I know I have seen them in various parts, especially in western Nebraska. It seems like western Nebraska is very eager, very open to Nebraska wineries. Omaha is a little bit tougher sale, and Lincoln for us is fairly easy since we're so close. But it basically comes down to the economics of wholesaling.

SENATOR D. PEDERSON: Well, you have a very successful operation. I know. I've been there several times.

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JIM BALLARD: Yes.

SENATOR D. PEDERSON: But...and you do, obviously, have to buy your product from growers as a portion of the operation. You couldn't grow all of the wine that you produce.

JIM BALLARD: We could, but that would be a whole heck of a lot of work that we don't want to do out there. (Laugh)

SENATOR D. PEDERSON: Yeah. Uh-huh.

JIM BALLARD: We have actually 23 growers under contract. We have approximately 18 acres planted at our Raymond site, 23 growers under contract. We're working with roughly 40 to 45 acres of grapes, which for the Midwest is a pretty good-sized winery. Most...and any winery you talk to...and, of course, 75 percent of everything that we make here in Nebraska has to be from Nebraska-grown product but, to a person, every winery that I've talked to, that if you asked, we're all striving to be 100 percent Nebraskan, and so far we've been pretty successful at that. Kind of depends on what Mother Nature gives us at harvest time, but so far we've really tried to promote Nebraska-grown fruit, other alternative crops, honey, apples, et cetera, to make wine out of.

SENATOR D. PEDERSON: How is Nebraska weather as far as the success of getting the vines through the winter?

JIM BALLARD: It actually...what we grow, are all French-American hybrids, American varietals for the most part, meant to be grown in colder climates. Most of our varieties were developed at the University of Minnesota or New York, places where they've done a lot of research on cold-hardy grapes. It's like any other farming operation. That's basically what we are, is we're farm wineries, farmers. I'll just give you an example. Last year, for James Arthur Vineyards, and I know Max Creek, since they're sitting right here, they lost the majority of their crop due to a frost in late April. We were down about 40 percent due to a frost in late April. So we take what Mother Nature gives us, but, if everything being equal and we've been intelligent in what we've planted, we should be very successful in the grapes that we grow, and that goes back to

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then just educating consumers on Edelweiss, LaCrosse, deChaunac, the types of varieties that we have and the styles of wines that we make.

SENATOR D. PEDERSON: Senator Heidemann, did you have a question?

SENATOR HEIDEMANN: You...what kind of permit do you have to have to sell the wine (inaudible)?

JIM BALLARD: We have actually a farm winery license. It's a Class Y?

(MALE): Y.

JIM BALLARD: Y permit, which allows us to...it's not really a retail liquor license permit, but it allows us sampling on premises.

SENATOR HEIDEMANN: And you could do that on a daily basis without (inaudible)?

JIM BALLARD: We can do that on a daily basis. We're limited to how much we can sample, but we can give samples at the facility there, which isn't allowed with other types of permits. That's basically the difference that we have, is that we can give samples, plus we can wholesale ourselves to a certain point.

SENATOR HEIDEMANN: Do you know, are you checked out on a regular basis on the sampling, you know, giving samples out? Does anybody ever check out...check you out on that?

JIM BALLARD: Oh, yeah. We make...not only do we pay a lot of taxes, as Max referred to, but we do a lot of reports (laugh) and the state tracks everything that we sample, everything that we sell, everything that we sell wholesale. By law, we can have one retail outlet that can also sample. Nobody in the state has that right now, but that is all tracked, through a form that we do on a monthly basis, in terms of gallonage.

SENATOR D. PEDERSON: Marian.

SENATOR PRICE: I just came back from four days in Napa

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Valley...

JIM BALLARD: Ah...

SENATOR PRICE: ...and miles and miles and miles of vineyards and wineries, but I'm glad to see this happening in Nebraska.

JIM BALLARD: Thank you.

SENATOR PRICE: Uh-huh.

JIM BALLARD: Thank you.

SENATOR HEIDEMANN: On an average year, an acre of grapes will gross in dollar value, (inaudible), on an average year?

JIM BALLARD: On an average year, depending upon the variety, the growing season, we could do anywhere from two to eight tons per acre. Right now, the average price per ton would be roughly anywhere from \$900 to \$1,300 per ton. So let's say on average you get five tons off an acre. You could basically generate almost \$6,000 for that, in the vineyard sense. And, of course, we...we're one of the very few industries in Nebraska or in the country that...where we take what we grow, we process it, we bottle it and we sell it, so you get to see every step of the process. There's no middleman whatsoever for us, as a winery, which is a great selling point for us and something unique in agriculture.

SENATOR HEIDEMANN: I, when I was younger, my folks always said that their folks had raised grapes but they had just went by the wayside because of all the farm chemicals. Do you fight that?

JIM BALLARD: That is something that we still...2,4-D, other chemicals can cause major havoc for us. A lot of research is being done now to help create more resistant varieties that won't be affected so much by those sprays. Yeah, Nebraska used to actually have hundreds of acres at the turn of the century, but a couple little things happened, one being what you're talking about, and Prohibition was another thing that came along that took care a lot of those grapes, plus, to be honest, when farmers starting raising row crops and the government said, hey, you know, we can subsidize or

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we can help you out with this, they didn't do that for grapes in Nebraska, so a lot of those went by the wayside. It's tough to find wild grapes in Nebraska anymore for a number of reasons.

SENATOR D. PEDERSON: Lowen.

SENATOR KRUSE: How much fertilizer or what kind of fertilizer, and is water a part of the process?

JIM BALLARD: For us, we do soil samples and petiole samples each year, which lets us know some of the nutrients that we maybe need to fertilize or get back into the ground. So it's on a year-to-year basis. I mean, there's some commons each year, but basically there's a lot of soil research that's done as opposed to when we first started planting grapes 11 years ago and thought, oh, that looks like a good site, let's throw them in there. (Laugh) There's a lot more research.

SENATOR KRUSE: Does it take much or does the soil balance out pretty good?

JIM BALLARD: It balances out pretty well, but some nutrients will be sucked up...

SENATOR KRUSE: Yeah.

JIM BALLARD: ...more than others throughout the year, so it varies from year to year. Water, the great thing about grapes, in my personal opinion...you ask ten different growers and ten different winemakers, they'll give you probably ten different answers...for me personally, water is very, very important those first years to help get the vine established. What I've read and what I've talked to other growers is that over time those vines or those root systems will go anywhere from 10 to 18-20 foot down into the ground. They're going to find some sources of water. When we were in a bad drought two years...well, I know a lot of parts of the state are still not completely out of that, that's for sure. Last year was a lot better for us in terms of moisture, but two years ago we had some concern over the dry weather but it produced some of the best quality grapes that we've seen. Grapes actually do a little bit better under stress. But for us, we have about 60, almost 70 percent of

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our vineyard hooked up to a drip irrigation system in case we need to use it. But I think, especially when you're establishing those vines, it's very, very important to get those roots established and water is vital to that.

SENATOR D. PEDERSON: This has been a very interesting discussion. We do have ten more items on our agenda today. (Laughter) But I certainly want to thank you for...

SENATOR KRUSE: We aren't going to have some wine or...

SENATOR D. PEDERSON: Yeah, we'll drink to that. No, I think that it's been very informative for us. I'm glad for this committee to know more about your industry and we'll certainly consider your request.

JIM BALLARD: Thank you.

SENATOR D. PEDERSON: Thank you. And Senator Hudkins had waived her closing, so we'll now go to Agency 57. Thank you for being here.